

DIRECT TESTIMONY
OF
SAMUEL S. MCCLERREN

ENGINEERING DEPARTMENT
TELECOMMUNICATIONS DIVISION
ILLINOIS COMMERCE COMMISSION

FAIRPOINT COMMUNICATIONS INC., C-R TELEPHONE COMPANY, THE EL
PASO TELEPHONE COMPANY, ODIN TELEPHONE EXCHANGE, INC. AND
YATES CITY TELEPHONE COMPANY

JOINT APPLICATION FOR APPROVAL OF THE
RECAPITALIZATION OF FAIRPOINT COMMUNICATIONS,
INC. PURSUANT TO SECTIONS 7-203 AND 7-204 AND
FOR OTHER RELIEF

OFFICIAL FILE

ILL. C. C. DOCKET NO. 04-0299

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Witness

Date 5-14-04 Reporter end

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MAY 7, 2004

1 **Q. Please state your name and business address.**

2 A. My name is Samuel S. McClerren. My business address is 527 E. Capitol
3 Avenue, Springfield, Illinois 62701.

4

5 **Q. What is your current position with the Illinois Commerce**
6 **Commission ("Commission")?**

7 A. I am currently employed as an engineering analyst in the Engineering
8 Department of the Telecommunications Division.

9

10 **Q. Please describe your qualifications and background.**

11 A. I graduated from Eastern Illinois University with a Bachelor of Arts Degree in
12 Economics in 1976, and with a Master of Arts Degree in Economics in 1977.
13 From 1978 to 1984 I worked in retail, supervising six outlets in the St. Louis
14 area. In 1984, I joined the Missouri Public Service Commission ("MPSC") as
15 a Management Auditor. In 1987, I left the MPSC to join the Illinois
16 Commerce Commission ("Commission") as a Management Analyst. In my
17 role as a Management Analyst, I managed telecommunications projects of
18 Contel of Illinois, Inc., GTE North, Inc., and Illinois Bell Telephone Company.
19 In April 1996, I began working in the Telecommunications Division of the
20 Commission as an engineering analyst. I have been a case manager and
21 witness in many proceedings at the Commission, including the following:

22

23 In Docket 01-0662, SBC Illinois' 271 proceeding, I provided an overall
24 assessment of three consecutive months of commercial performance
25 results reflecting the level of service SBC Illinois provides to Illinois
26 CLECs, relative to the 14-point checklist. I also addressed remedy plan
27 issues.

28

29 I was the Commission's case manager on Docket 98-0555's
30 (SBC/Ameritech Illinois merger proceeding) Condition 30 process, which
31 led to the development of Ameritech's wholesale performance measures
32 in Illinois. I was the case manager and also provided testimony in Docket
33 01-0120, the proceeding that addressed the adequacy of Ameritech's
34 wholesale remedy plan.

35

36 I am case manager and provided testimony in Docket 01-0539, a
37 rulemaking to develop statewide wholesale service quality rules to be
38 contained in Code Part 731. I was case manager and provided testimony
39 in Docket 00-0596, the Part 730 (retail service quality) rulemaking
40 proceeding. I testified in Docket 98-0555 regarding service quality
41 matters, and in Dockets 98-0252 and 92-0448 regarding Illinois Bell's
42 alternative regulation plans.

43

44 Also, I have provided testimony in Dockets 96-0404, 96-0486, 96-0503,
45 97-0171 and 97-0300 primarily related to telecommunications carriers'

performance measurement and/or operations support systems. Finally, I have provided verified statements in several negotiated and arbitrated interconnection agreement proceedings.

Q. What is the purpose of your testimony in this proceeding?

A. I address the potential operational impacts of FairPoint Communications, Inc.'s ("FairPoint") Joint Application for Recapitalization pursuant to Sections 7-203 and 7-204 of the Illinois Public Utilities Act, and recommend key service quality measures that the Commission should monitor to ascertain that service quality does not deteriorate as a result of this reorganization.

In the development of my testimony, I have reviewed the Joint Application initiating this proceeding dated March 25, 2004, as well as the Direct Testimony of Walter E. Leach, Jr., prepared on behalf of FairPoint Communications, Inc. ("FairPoint"), C-R Telephone Company ("C-R Telephone"), The El Paso Telephone Company ("El Paso Telephone"), Odin Telephone Exchange, Inc. ("Odin Telephone") and Yates City Telephone Company ("Yates City Telephone") (collectively referred to as "Joint Applicants").

Q. What is your understanding of this proceeding?

A. It is my understanding that FairPoint seeks to recapitalize by becoming a publicly owned company through an Initial Public Offering ("IPO"). The

Joint Applicants believe that this recapitalization may constitute a change in the right to own, operate, manage, or control, and thereby requires approval under Sections 7-203 and 7-204.

Q. What is your understanding of FairPoint, specifically?

A. It is my understanding that FairPoint is a privately owned corporation, and that FairPoint is a holding company that owns and controls C-R Telephone, El Paso Telephone, Odin Telephone, and Yates City Telephone (collectively referred to as "Operating Companies").¹ The FairPoint holding company is a provider of communication services in rural communities, including local voice, long distance, data, internet, and broadband product offerings. FairPoint operates in 17 states with approximately 264,300 access line equivalents. FairPoint's Illinois operations provide service to approximately 7,351 access lines.

FairPoint has an experienced management team, with a senior management team having an average of 21 years telephone company experience. Additionally, FairPoint's management team has successfully integrated 30 business acquisitions since 1993.

¹ As well as other operating companies that are not a subject of this reorganization.

89

90 **Q. Has FairPoint addressed the impact of this reorganization on the**
91 **issue of service quality?**

92 A. Yes, FairPoint indicates that the proposed transaction will not diminish C-
93 R Telephone's, El Paso Telephone's, Odin Telephone's, and/or Yates City
94 Telephone's ability to provide adequate, reliable, efficient, safe and least
95 cost service.²

96

97 **Q. Do you have any specific information on the current level of service**
98 **quality provided by C-R Telephone, El Paso Telephone, Odin**
99 **Telephone, and/or Yates City Telephone?**

100 A. No. The new service quality reporting required by Illinois Administrative
101 Code Part 730 does not yet include information for the four operating
102 companies.

103

104 **Q. Do you have any reason to believe that the current level of service**
105 **quality provided by the four operating companies has been**
106 **inadequate?**

107 A. No. Even though Part 730 quarterly reporting is not yet operative, it is my
108 belief that if there were significant problems with the service quality
109 provided by the four operating companies, I would likely be aware of the
110 problems through the previous Part 730's exception reporting, consumer
111 services, or direct complaints.

² Joint Petition, p. 7.

112

113 **Q. Do you have any concern about the potential impact of this**
114 **reorganization on the service quality provided by the four operating**
115 **companies?**

116 A. Yes. As discussed further in the Direct Testimony of staff witness Janis
117 Freetly, it is my understanding that this reorganization could provide an
118 incentive for FairPoint to reduce the operating budgets or planned levels
119 of investment of the Operating Companies.

120

121 **Q. How could the Commission protect the service quality interests of**
122 **Illinois customers relative to this reorganization?**

123 A. This Commission has demonstrated a strong interest in matters of service
124 quality in previous dockets when the proceeding might provide an
125 economic incentive for a local exchange carrier, such as the Operating
126 Companies, to reduce levels of service quality. Both of the Illinois Bell
127 alternative regulation plans provide economic incentives to maintain
128 minimum levels of service quality.³ In other reorganizations, the
129 Commission has ordered special reports to monitor the level of service
130 quality of the resulting entity for some interval of time.⁴

131

³ Dockets 92-0448 and 98-0555, respectively.

⁴ Dockets 97-0171 and 97-0675, regarding Ameritech Illinois Metro, Inc. and Central Telephone Company of Illinois, Inc.; Docket 97-0300, regarding McLeodUSA Incorporated and Consolidated Communications; Docket 98-0866, regarding GTE and Bell Atlantic.

132 **Q. What do you recommend the Commission require in this proceeding**
133 **to assure continuing service quality levels?**

134 A. I recommend that the Commission accept the condition that restricts
135 FairPoint's access to the cash of its Illinois operating companies, as
136 described in Staff witness Janis Freetly's testimony. The condition
137 proposed by Ms. Freetly is tied to the quality of service the Operating
138 Companies provide. My testimony identifies the key service quality
139 measures that should be monitored as part of that condition. As part of
140 that condition, I also recommend that FairPoint annually file with the
141 Commission a report that in detail show the Operating Company's
142 performance with respect to the key service quality measures.

143

144 **Q. What service quality standards should FairPoint's four operating**
145 **companies report on?**

146 A. I recommend that the following service quality measures from Code Part
147 730 be reported on:

148 730.510(a)(1)(A) - Toll & Assistance Answer Time
149 730.510(a)(1)(B) - Information Answer Time
150 730.510(b)(1) - Business Office Answer Time
151 730.510(b)(1) - Repair Office Answer Time
152 730.535(a) - Interruptions of Service
153 730.540(a) - Installation Requests
154 730.545(a) - Trouble Reports
155

156 Given that these are all existing service quality performance measures
157 that Illinois local exchange carriers are currently reporting on in Code Part

158 730, this condition should represent very little additional work for the
159 Operating Companies.

160

161 **Q. Are you aware that the Operating Companies have filed for a waiver**
162 **of Part 730.510(a) and 730.510(b)?**

163 A. Yes I am. It is my understanding that they are being addressed in Docket
164 Nos. 04-0278 (C-R), 04-0279 (El Paso), 04-0280 (Odin), 04-0281 (Yates
165 City).

166

167 **Q. Have their petitions for waiver been granted?**

168 A. No they have not. On March 31, 2004 the Commission issued a notice of
169 Commission Action in each docket temporarily suspending the
170 requirements of Part 730.510(a) and 730.510(b) as it applies to each
171 Operating Company. The temporary suspension is effective until the
172 Commission issues an order granting or denying their petitions, it is based
173 on a preliminary finding, and it carries no weight in determining the
174 propriety of the permanent waiver requested by the Operating Companies.

175

176 **Q. How does that effect your recommendation?**

177 A. I recommend that the all of the key service quality measures set forth
178 above still be included in this condition, however, in light of the temporary
179 suspension issued by the Commission, I recommend that the use of those
180 key service quality measures that are affected by the temporary

suspension -- Parts 730.510(a)(1)(A), 730.510(a)(1)(B), 730.510(b)(1), and 730.510(b)(1) -- be contingent upon the Commission's decisions in Docket Nos. 04-0278, 04-0279, 04-0280, and 04-0281. Specifically, if the Commission grants the Operating Company a permanent waiver from one or all of the code parts requested, then the key service quality measures defined in that code part should not be included in this condition. And vice versa, if the Commission denies the petition for waiver from one or all of the code parts, then the key service quality measures defined in that code part should be included in this condition.

Q. Do you propose any reporting requirements?

A. Yes I do. I recommend FairPoint file an Annual Report with the Commission on December 1st of each year. The report shall identify each carrier, and the title of the service quality measure, and by operating company FairPoint shall list the standard set by the Commission for each service quality measure, and the actual performance for each annual period. The annual report shall present the actual performance data for every month after the date the securities are issued, with the initial month of data presented in the report being July 2004. The reporting requirement shall end when FairPoint's issuer credit rating is raised to investment grade status, as presented more fully by Staff witness Janis Freetly in her testimony.

204 **Q. Does FairPoint need to make any other filings with the Commission**
205 **to fulfill this condition?**

206 A. Yes. FairPoint needs to file a Final Notice, as described in Staff witness
207 Janis Freetly's testimony.

208

209 **Q. If FairPoint is already reporting on this service quality information**
210 **relative to Part 730 on the Commission's web site, what is the**
211 **advantage of having them report it?**

212 A. The operating companies are not reporting their performance relative to
213 their last two years of service quality. Rather, they are required to report
214 on service quality levels relative to Code Part 730. Staff wants to be sure
215 that this reorganization does not degrade the current service quality levels,
216 which are believed to meet or exceed Code Part 730's minimum
217 requirements.

218

219 **Q. How are the performance measures used with respect to triggering a**
220 **restriction of cash flow from an Operating Company?**

221 A. If an operating company's level of service falls below the average level of
222 service the operating company has been providing for the past two years
223 for a majority of the key service quality measures, then that Operating
224 Company should be prohibited from transferring cash to FairPoint. The
225 rationale behind this is if an Operating Company's service quality starts to
226 degrade, then the company needs to make changes, and to make

227 changes it needs capital. The restriction in the outflow of cash to FairPoint
228 is a way to ensure that the Operating Company has some capital to
229 improve its network so it improves its level of service.

230

231 **Q. What standard should the Commission use for each key service**
232 **quality measure?**

233 A. I recommend that the standard for each key service quality measure be
234 the average level of service the operating company has been providing for
235 the past two years for that key service quality measure.

236

237 **Q. What are those levels of service?**

238 A. I do not have the information to set the levels of service. I am currently
239 awaiting a response to a data request that should provide me information
240 to calculate the level of service for each Operating Company. Once I have
241 received that information I will file supplemental testimony showing my
242 calculations and the level of service for each key service quality measure
243 for each Operating Company.

244

245 **Q. Does this question end your testimony?**

246 A. Yes, it does.

247